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| RESEARCH ARTICLE

Financial Reporting Quality: The Effectiveness of the Corporate Governance Quality Evidence from Indonesia

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| ABSTRACT
This study aims to examine and analyze the influence of the quality of corporate governance on the quality of financial reporting in Indonesia; Using panel data on all companies listed on the Indonesia Stock Exchange during the period 2010 - 2018, except financial companies. Financial companies are not sampled because they have different financial reporting systems and regulations in Indonesia. The final sample used in this study was 2014 companies. Corporate governance quality (CG quality) is measured using a corporate governance index that we have developed in accordance with GCG regulations and other regulations that apply in Indonesia. The quality of financial reports is proxied by discretionary accruals using the modified jones model, while the robust model uses accruals from the Kothari models. The analysis technique used is multiple linear regression with the SPSS software version 17. The results of our study found that the quality of corporate financial reports as measured by discretionary accruals was positively influenced by the quality of corporate governance in both the Jones model and the Kothari model at a significance level of 1%, which means that the higher the quality of corporate governance, the higher the quality of corporate governance, the more quality the company's financial statements will be and vice versa.

| KEYWORDS

Corporate governance quality, Financial Reporting Quality

| ARTICLE INFORMATION

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1. Introduction

Financial reports are one of the main media used by company management to communicate management accountability for the resources entrusted to them to the owners (stockholders). Suwardjono (2014: 458) states that financial statement information is needed by investors and creditors to evaluate the company's prospects in the future. Therefore, company management is responsible for presenting high-quality financial reports for users of financial statements to help them make the right decisions.

The problem is that the phenomenon related to the tendency of company management to manipulate the company's financial reporting has been around for a long time, and until now, it is suspected that the company is still practicing it. This is evidenced by several large companies that have been involved in cases of violations of accounting practices, namely allegations of the practice of manipulating financial reports by inflating profits, including cases such as the case of Xerox, Enron, WorldCom, and Toshiba. Likewise, in Indonesia, it is suspected that the same case occurred, including the case of PT Kimia Farma Tbk in 2001 and the case of PT Hanson International plc in 2019, based on the announcement letter of the Financial Services Authority (OJK) number: Peng-3 / PM.1 / 2019, and case of PT Garuda Indonesia (Persero) Tbk based on OJK press release with letter number SP 26 / DHMS / OJK / VI / 2019.

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Some of the cases mentioned above are very likely to be repeated in other companies because, according to Lafond (2008) it is stated that individual managers can influence the quality of financial reporting in two ways, namely through real decisions and accounting policy choices. Krishnan & Parsons (2008) also stated that the choice of accounting policies and accounting estimates (accruals) as a whole affects the quality of financial reports by involving professional judgment. Bruns & Merchant (1990) stated that the practice of manipulating financial statements is generally seen as a practice of unethical financial reporting because it is related to moral and ethical problems by managers and accountants. Therefore, it is very necessary to implement good corporate governance in the company.

Good corporate governance is a system created to direct and control the direction of the company in a better direction, namely to prevent fraud or mistakes from management parties, which can be detrimental to shareholders in particular and stakeholders in general. According to (Agoes & Ardana, 2009; Akdoğu, Alp Paukowits, & Celikyurt, 2020; Butzbach & Rotondo, 2020; Chen et al., 2021; Haman, Chalmers, & Fang, 2020; Indriastuti, Winarsih, & Najihah, 2021; Liang et al., 2020; Malikov et al., 2021; Mousavi & Lin, 2020; Xiao et al., 2020), by implementing the concept of good corporate governance, the company will be able to improve organizational performance, create added value for all stakeholders, prevent and reduce manipulation and significant errors in organizational management and can increase efforts for stakeholder interests are not harmed. Puni & Anlesinya (2020), De Regge & Eeckloo (2020), Dunbar, Li, & Shi (2020), Ghio & McGuigan (2020), and Haman, Chalmers, & Fang (2020) stated that one of the benefits of implementing good corporate governance practices is to improve the company's financial performance for the better. Dang et al. (2020), Chen & Yang (2020), Hou & Liu (2020), Omer, Aljaaidi, & Habtoor (2020) examined the effect of corporate governance and earnings quality, finding that corporate governance has a positive effect on earnings quality. This means that when the company adheres to and implements good corporate governance, it can make the company operate more effectively and reduce agency costs, thereby improving the company's financial quality. The results of Feng and Huang (2020) prove that corporate governance can effectively limit manipulation practices in corporate financial reporting.

However, the problem is that the financial statements presented by the management of the company are not always completely free from interference (noise) due to manipulation practices in the company's financial reporting. This is due to certain interests which may not be disclosed in a transparent manner by the parties in conducting the company's business. As explained in the agency theory, there is a conflict of interest between management (agent) and shareholders (principal), where the principal expects high returns while the agent expects high compensation (Jensen & Meckling, 1976). The phenomenon of conflict of interest between management (agent) and shareholders (principal) occurs because the agent does not always act in the interests of the principal. This is what ultimately triggers the management (agent) to seek manipulation practices in financial reporting, for example, by practicing earnings manipulation.

The practice of manipulation in financial reporting has become a global phenomenon, and various countries have tried to overcome it in order to ensure the credibility of financial reports by ensuring strong corporate governance and tightening compliance with financial accounting standards. In Indonesia, since 2000, the private sector non-State-Owned Public Agency has begun to commit to implementing good corporate governance practices in companies, and since January 1, 2012, the financial statements of companies that have gone public in Indonesia must be presented based on high-quality financial accounting standards, namely the Standard Statement. Financial Accounting based on International Financial Reporting Standards, to replace the previous Statement of Accounting Standards based on Generally Accepted Accounting Principles. Based on this, it shows that the efforts of companies in Indonesia to maintain the credibility of financial reports through the implementation of good corporate governance have been going on for almost 20 years; however, the problem of manipulation in financial reporting is still occurring in Indonesia. This may happen because, as reported in the CNN Indonesia media, it is stated that the implementation of good corporate governance in Indonesia is still relatively out of place when compared to countries in the ASEAN region (Primadhyta, 2017). Yasmeen & Hermawati (2015) also stated that the implementation of good corporate governance in companies in Indonesia is still low when compared to other Asian countries.

Therefore, based on this, the main problem to be answered in this study is: can the quality of corporate governance be an indication of quality in corporate financial reporting in Indonesia? This study aims to examine and analyze whether the quality of corporate governance can be an indication of quality in corporate financial reporting in Indonesia, considering that up to now, there are still manipulation practices in corporate financial reporting, as mentioned above. Meanwhile, according to Wati, Ramdan, & Momon (2020), the implementation of good corporate governance can have an impact on the quality of the company's financial statements. However, there are different research results, Abbadi et al. (2016) proving that the quality of corporate governance has a significant negative effect on earnings management as measured by the discretionary accruals modified jones model. Likewise, the research results of Saftiana et al. (2017) prove that the implementation of Good Corporate Governance in LQ 45 companies in Indonesia has no effect on earnings management as measured by discretionary accruals.

The remainder of this paper is structured as follows: Section 2 for literature review and hypothesis development; Section 3 is to describe the research methodology; Section 4 presents the results and discussion; and Section 5 implies and concludes the research results.

2. Literature review

2.1 Agency Theory

Agency theory tries to explain how the parties involved in the company behave because, basically, the principal and agent have different interests. Jensen & Meckling (1976), Velasco et al. (2021), Wei, Wang, & Lu (2021) states agency theory is a theory of the inequality of interests between principal and agent, where the principal expects high returns while the agent expects high compensation. The role of agency theory in this study is to understand the concept of good corporate governance. Jensen & Meckling (1976), Lin et al. (2020), and Reinholz & Andrews (2020) state that agency theory has become the theoretical basis for corporate governance research, where agency theory considers the role of corporate governance in reducing agency conflicts between principals and agents. Eisenhardt (1989) states that agency theory uses three assumptions of human nature, namely: (1) humans are generally self-interested, (2) humans have limited thinking power about future perceptions (bounded rationality), and (3) humans tend to always avoid risk (risk averse). Based on the assumption of human nature, it is possible that a manager as a human being will act opportunistically, namely always prioritizing his personal interests, because managers have more information about the company than shareholders. The imbalance of access to information creates information asymmetry and ultimately may result in managers manipulating financial reports by hiding the real information from shareholders for their own interests. The role of agency theory in this study is to understand the concept of good corporate governance and manipulation practices in corporate financial reporting.

2.2 Good Corporate Governance (GCG)

Good corporate governance is a system created to direct and control the direction of the company in a better direction, namely to prevent fraud or mistakes from management parties, which can be detrimental to shareholders in particular and stakeholders in general. Shleifer & Vishny (1997), Choi et al., (2020), Ellili (2020), Gerged, Mahamat, & Elmghaamez (2020), Rama, Sankaran, & Walsh (2020), Rodó et al., (2020) stated that corporate governance is a set of mechanisms used to protect the rights of investors from the opportunistic behavior of corporate management. Agoes & Ardana, 2009; Assidi, 2020; Banerjee & Mohanty, 2020; Haj-Salem, Damak & Hussainey, 2020; Khan & Shireen, 2020; Mohd Saad, Haniff, & Ali, 2020 state that good corporate governance is a system that regulates the relationship between the role of the board of commissioners, the role of the board of directors, shareholders and other stakeholders. Good corporate governance is also referred to as a transparent process for determining company goals, achieving them, and evaluating their performance. Agoes & Ardana (2009), the concept of good corporate governance clarifies and reinforces the relationship mechanism between stakeholders in an organization which aims to improve organizational performance, create added value for all stakeholders, prevent and reduce manipulation and significant errors in organizational management and increase efforts so that stakeholders are not disadvantaged. According to (Saftiana et al., 2017; Agstner, 2020; Barka & Hamza, 2020; Boubaker et al., 2020; and Zheng et al., 2020), good corporate governance is the key to success for any company to build a good supervisory system within the company.

2.3 Financial Reporting Quality

The purpose of financial reports is to provide information about the financial position, performance, and changes in the financial position of a company so that it is useful for users in making economic decisions (Kartikahadi et al., 2016:50; Bi, Tang, & Tharyan, 2020; Efimova, Rozhnova, & Zvyagintseva, 2021; Klychova et al., 2021; Lakhtionova et al., 2021; Volkov, 2021). Financial reporting information is needed by investors and creditors in making or changing decisions, such as for contracting decisions, making investment decisions, and standard setters, as well as a basis for setting compensation and debt agreements (Schipper & Vincent, 2003; El-Rayess et al., 2020; Johnston & Soileau, 2020; and Salvi et al., 2020). Therefore, company management must provide quality financial report information. Martínez-Ferrero, 2014; Hesarzadeh, Bazrafshan, & Rajabalizadeh, 2020; Jiang, Ma, & Wang, 2020; Kim et al., 2020 state that financial reports are said to be of quality if the financial statement information presented by management is full of integrity. Likewise, Suwardjono (2014: 171) states that the quality of financial reports is the ability of financial reports to provide correct and valid information to users of financial statements. The credibility of the financial statements presented by the company becomes less and more biased if there are earnings management practices in the company's financial statements (Setiawati & Na'im, 2000; Ahmed, Li, & Xu, 2020; Al-Shaer, 2020; Eugster & Wagner, 2020; Himanshu, Singh, & Kumar, 2020; Khoo, Lim, & Monroe, 2020). This shows that earnings management practices can cause financial statement information to be unreliable in making decisions. Kartikahadi et al., 2016:57 and Rusdiyanto et al., 2020 state that financial statement information is said to be of reliable quality for making decisions if it is presented honestly as is in accordance with generally accepted principles.

2.4 Hypothesis Development

The quality of the financial statements of a company is thought to be greatly influenced by the good or bad of the company implementing good corporate governance (GCG) practices in the company. Wati, Ramdan, & Momon (2020) stated that the implementation of good corporate governance (GCG) in companies could have an impact on the quality of the company's financial

statements. By implementing GCG, the company has a supervisory function through governance mechanisms such as the presence of the board of commissioners and audit committee, which can prevent management from manipulating financial reports so that the reported financial reports are of higher quality. The results of Feng and Huang's research (2020) prove that through the implementation of a good Corporate Governance (CG) mechanism, companies can effectively limit earnings manipulation practices in the financial reporting process, thereby improving the quality of the company's financial statements. The results of Puni & Anlesinya's (2020) research found that the implementation of good corporate governance has a positive effect on the company's financial performance or can improve the company financial performance. The results of research by Dang et al. (2020) prove that the implementation of good corporate governance has a positive effect on the quality of company earnings. This means that when the company adheres to and implements Corporate Governance (CG) properly, the company's operations will be more effective and can reduce agency costs, which in turn will increase company value. Habib & Jiang (2015) stated that good corporate governance could improve the quality of corporate financial reporting. Based on several explanations of the research results mentioned above, the hypothesis proposed in this study is:

H1: The higher the level of corporate governance quality (CG quality), the higher the quality of the company's financial reporting.

3. Methodology

3.1 Sample

The sample sources used in this study are all companies listed on the Indonesia Stock Exchange except for financial companies from 2010 - 2018. Financial companies are not sampled because they have different financial reporting systems and regulations. The final sample used in this study was 2014 companies. All data to develop research models is secondary data taken from the annual financial reports of all companies listed on the Indonesia Stock Exchange, except for financial companies from 2010 to 2018, which were obtained from the Indonesian Capital Market Directory (ICMD), OSIRIS, and the Indonesia Stock Exchange website.

3.2 Variable Measurement

In this study, the dependent variable used is the quality of financial reports as proxied by discretionary accruals using the modified jones model as used by Wati, Ramdan, & Momon (2020) in their research to measure the quality of financial statements. The independent variable in this study is the quality of corporate governance (CG quality) which is measured using the corporate governance index used by Abbadi, Hijazi, & Al-Rahahleh (2016) in measuring the quality of corporate governance, which is then developed by the author according to the applicable corporate governance regulations in Indonesia where the corporate governance index is classified into 7 categories with a total corporate governance standard of 29 statement items. As for getting the corporate governance index score, the total score applied by the company is divided by the maximum corporate governance index score and multiplied by 100%. Control variables consist of firm size, profitability, leverage, and firm age. Robust models accrual to Kothari models. Table 3-1 below describes the operational variables.

Table 3-1. Description operational of the variables

Variable	Description
<u>Dependent:</u>	Modified Jones Model:
Discretion Accrual	$TAit = NIit - CFOit$
	$TAC_t/A_{t-1} = \beta_1 (1/A_{t-1}) + \beta_2 ((\Delta REV_t)/A_{t-1}) + \beta_3 (PPE/A_{t-1}) + e$
	$NDAt = \beta_1 (1/A_{t-1}) + \beta_2 ((\Delta REV_t - \Delta RECt)/A_{t-1}) + \beta_3 (PPE/A_{t-1})$
	$DA_t = TA_t/A_{t-1} - NDA_t$
<u>Independent:</u>	
CG Quality	$\text{CG Index} = \frac{\text{Total score applied}}{\text{Maximum CG score}} \text{ X } 100\%$
<u>Control:</u>	
Firm size	Log of total assets
Profitability	The ratio of net profit to total assets
Leverage	The ratio of debt to total equity
Firm age	Log of number of years since incorporation

Source: Literature review

Table 3-2 below explains the Corporate governance quality index developed by the author in accordance with the applicable corporate governance regulations in Indonesia.

Table 3-2. Corporate governance quality index

Category	Corporate Governance Standard	Rule in Corporate Governance Code
General Meeting of Shareholders (RUPS)	Description of shareholder rights	Statement regarding the guarantee of shareholder rights.
	Implementation information of General Meeting of Shareholders	The annual General Meeting of Shareholders is routinely held before 30 June.
	Delivering the results of the General Meeting of Shareholders	Delivering the results of the decision of the General Meeting of Shareholders in the annual report.
Board of Commissioners	Members of at least 2 people	Based on the Regulation of the Financial Services Authority (OJK) No. 33 / POJK.04 / 2014 concerning directors and commissioners of public companies. It is stated that the Board of Commissioners consists of at least 2 (two) members of the Board of Commissioners, consisting of an Independent Commissioner and a main commissioner.
	One of the two members consists of an Independent Commissioner and a Main Commissioner	
	The number of Independent Commissioners must be at least 30% (thirty percent) of the total members of the Board of Commissioners.	
	The board of commissioners may hold concurrent positions at a maximum of 2 (two) other public companies	May not have concurrent positions as directors and commissioners in more than 2 (two) other public companies.
	Meetings of the board of commissioners may not be less than 6 (six) times a year	The Board of Commissioners must hold a meeting at least 1 (one) time in 2 (two) months.
	Meetings of the board of commissioners and the board of directors may not be less than 3 (three) times a year	The Board of Commissioners must hold a joint meeting with the Board of Directors on a regular basis at least 1 (one) time in 4 (four) months.
Board of Directors	Members of at least 2 people	Based on the Regulation of the Financial Services Authority (OJK) No. 33 / POJK.04 / 2014 concerning directors and commissioners of public companies. It is stated that the board of directors consists of at least 2 (two) people, consisting of the main director and the vice president director.
	One of the two members is the president director	
	The board of directors may hold concurrent positions as a member of the board of directors at a maximum of 1 (one) other public company and 2 (two) companies for a position as a member of the board of commissioners.	May not hold concurrent positions as a director in more than 1 (one) company and a commissioner in more than 2 (two) other public companies.
	The meeting of the board of directors may not be less than 12 (twelve) times	The Board of Commissioners must hold a meeting at least 1 (one) time in 1 (one) month.
	Meetings of the board of directors and the board of commissioners may not be less than 3 (three) times a year	The board of directors must hold a meeting with the commissioners on a regular basis at least 1 (one) time in 4 (four) months.
Audit Committee	Existence of an audit committee	Based on OJK Regulation No. 55 / POJK.04.2015 concerning the Establishment and Guidelines for the Work Implementation of the Audit Committee. That the audit committee assists the board of commissioners in carrying out their duties and responsibilities within the company.
	Description of the duties and responsibilities of the audit committee	
	The Audit Committee is chaired by an Independent Commissioner	
	The Audit Committee consists of at least 3 (three) members	
	Audit committee meetings may not be less than 4 (four) times	The audit committee holds regular meetings at least 1 (one) time in 3 (three) months.

Category	Corporate Governance Standard	Rule in Corporate Governance Code
	Professionalism of members of the Audit Committee	The existence of the Audit Committee charter and the statement of independence of the audit committee as stipulated by the commissioners.
Internal Audit Unit (SPI)	The existence of an Internal Audit Unit (SPI)	Based on the GCG guidebook, SPI was formed to support the implementation of GCG through independent auditing and consulting activities and providing direct reports to the commissioners.
	Description of the duties and responsibilities of the SPI	
Nomination Committee and Remuneration	The existence of the Nomination and Remuneration Committee	Based on OJK Regulation No. 34 / POJK.04 / 2014 concerning the Nomination and Remuneration Committee. That the audit committee assists the board of commissioners in carrying out their duties and responsibilities within the company.
	Description of the duties and responsibilities of the Nomination and Remuneration Committee	
	Members of the Nomination and Remuneration Committee shall consist of at least 3 (three) people	
	Meetings of the Nomination and Remuneration Committee may not be less than 3 (three) times	The Nomination and Remuneration Committee holds regular meetings at least 1 (one) time in 4 (four) months.
	Professionalism of the members of the Nomination and Remuneration Committee	The existence of the Nomination and Remuneration Committee charter, which is stipulated by the commissioners.
Company Secretary	The presence of a company secretary	Based on POJK No. 35 / POJK.04 / 2014 concerning the Corporate Secretary of Issuers or Public Companies. As an important aspect in implementing GCG, the function of the Corporate Secretary is formed to provide support for company management.
	Description of the duties and responsibilities of the Corporate Secretary	

Source: Literature review

3.3 Empirical model

To examine the effect of the quality of corporate governance on the level of financial reporting quality, the empirical model is defined as follows:

$DA_{it} = \alpha + \beta_1 CGI_{it} + \beta_2 SIZE_{it} + \beta_3 ROA_{it} + \beta_4 DER_{it} + \beta_5 AGE_{it} + \varepsilon$......(1)

Where:

α = constant
β = represents the coefficients of the regression model
DA_{it} = value of discretionary accruals for company i in year t
CGI_{it} = CG quality, which is measured through the above governance index.
$SIZE_{it}$ = the firm size for company i in year t
ROA_{it} = the profitability for company i in year t
DER_{it} = represents the financial leverage for company i in year t
AGE_{it} = the firm age for company i in year t
ε = Error

4. Results and Discussion

4.1 Descriptive statistics

Based on table 4-1, CG Quality ranges from 86% to 100%, with an average of 96%, which shows that the implementation of corporate governance rules by companies in Indonesia is good. The lowest discretional accruals value was -0.16, and the highest was 0.19, with an average value of -0.0032. The average value of discretional accruals in companies has a negative value of -0.0032 which means that companies in Indonesia carry out earnings management by reducing earnings or accounting conservatism.

Table 4-1. Descriptive statistics of the Variables

Variable	Minimum	Maximum	Mean	Std. Deviation
CG Quality	0.86	1.00	0.95613	0.03372
DA (modified Jones)	-0.16	0.19	-0.0032	0.04153
DA (Kothari)	-0.21	0.20	-0.0046	0.04722
Firm Size	16.06	26.57	21.8028	1.65641
Profitability	-93.15	59.42	3.28233	10.7247
Leverage	0.02	6.50	0.57469	0.4389
Firm Age	1.00	7.61	3.3494	0.88754

Source: Output SPSS processed, 2022

Table 4-2 illustrates the correlation coefficient between research variables. Based on table 4-2, there is a significant positive relationship between the quality of corporate governance and the quality of financial reports. This shows that the higher the quality of corporate governance, the higher the quality of the company's financial statements. The control variables represented by company size, profitability, and company age have a significant positive correlation coefficient. However, leverage has a significant negative correlation coefficient.

Table 4-2. Correlations Matrix

Variable	DA	CG Index	Firm Size	Profitability	Leverage	Firm Age
DA	1					
CG Quality	0.065**	1				
Firm Size	0.057*	-0.043	1			
Profitability	0.093**	0.028	0.073**	1		
Leverage	-0.074**	0.007	-0.048*	-0.277**	1	
Firm Age	0.071**	0.008	0.083**	0.003	-0.020	1

** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).

4.2 Normality

Detecting normality can be done by looking at the form of distribution of the variables to be studied, but the normality of a variable is not always required in the analysis (Ghozali, 2018). Hair et al. (2010) state that the normality test can be ignored if the sample size reaches 200 or more.

4.3 Multicollinearity test

The multicollinearity test aims to test whether the regression analysis model finds a correlation between independent (independent) variables. A good regression model should not have a correlation between the independent variables (independent variables). Detecting the presence or absence of multicollinearity in the regression model can be seen from the tolerance value and the Variance inflation factor (VIF) value; that is, if the tolerance value approaches zero and the VIF value is greater than 10, then there will be multicollinearity in the model (Ghozali, 2018).

Table 4-3. Hasil Multicollinearity test

Variable	Collinearity Statistics	
	Tolerance	VIF
CG Quality	0.997	1.003
Firm Size	0.985	1.015
Profitability	0.918	1.089
Leverage	0.922	1.085
Firm Age	0.993	1.007

Source: Output SPSS processed, 2022

Based on table 4.3, it can be seen that none of the tolerance values possessed by each of the above variables is close to zero, which varies from 0.918 to 0.997. Likewise, the value of the Variance inflation factor (VIF) ranges from 1,003 to 1,089. Therefore, it can be concluded that there is no sign of multicollinearity in the regression model.

4.4 Discussion of Research Results

Based on table 4-4, it is found that the quality of the company's financial statements as measured by discretionary accruals is positively influenced by the quality of corporate governance in both the Jones model and the Kothari model at a significance level of 1% which means that the higher the quality of corporate governance, the more quality the company's financial statements will be vice versa. The results of this study support agency theory, which according to Jensen & Meckling (1976), states that between agent and principal, there is agency conflict, where the agent does not always act in accordance with the principal; therefore, through the role of corporate governance (CG) companies can reduce conflict between agent and principal and able to reduce agency costs. According to Puni & Anlesinya (2020), the implementation of good corporate governance can reduce agency conflicts and improve the company's financial performance.

The results of this study are in line with Dang et al. (2020), where the implementation of good corporate governance has a positive effect on the quality of company earnings. This means that when the company adheres to and implements Corporate Governance (CG) properly, the company's operations will be more effective and can reduce agency costs so which in turn it will increase company value. In line with the results of research by Feng & Huang (2020), it is evident that through the implementation of a good Corporate Governance (CG) mechanism, companies can effectively limit earnings manipulation practices in the financial reporting process, thereby improving the quality of the company's financial statements. Puni & Anlesinya's (2020) research results also prove that the implementation of good corporate governance has a positive effect on the company's financial performance or can improve the company's financial performance. However, the results of this study are not in line with Abbadi, Hijazi, & Al-Rahahleh (2016), which provides evidence that the quality of corporate governance has a significant negative effect on earnings management as measured by the discretionary accruals modified jones model. Likewise, the research results of Saftiana et al. (2017) prove that the implementation of Good Corporate Governance (GCG) in LQ 45 companies in Indonesia has no effect on earnings management as measured by discretionary accruals.

Table 4-4. Regression Analysis Model

Variable	Main model (Jones)		Robust Model (Kothari)	
	T	Sig.	T	Sig.
(Constant)	-3.813	0.000	-4.932	0.000
CG Quality	2.879	0.004**	3.670	0.000**
Firm Size	2.055	0.040*	2.861	0.004**
Profitability	3.178	0.002**	7.547	0.000**
Leverage	-2.278	0.023*	-2.099	0.036*
Firm Age	2.991	0.003**	2.986	0.003**
Sig. of F		0.000		0.000
Adj-R^2		0.020		0.051

Source: Output SPSS processed, 2022

Table 4-4 shows that all control variables, firm size, profitability, leverage, and firm age, have a significant effect on the quality of the company's financial statements. The results of testing the quality of financial reports using the Kothari model are consistent with the modified Jones model test results, so the results of this test can be said to be robust.

5. Conclusion

This study aims to empirically test the effect of governance quality on the quality of corporate financial statements. The quality of financial reports in this study is measured using discretionary accruals. Based on the results and discussion in this study, it is found that the quality of corporate governance has a significant positive effect on the quality of financial statements by reducing discretionary accruals. This means that the higher the quality of corporate governance, the more quality the company's financial statements will be, and vice versa. The results of descriptive statistics show that the quality of corporate governance for the companies in the sample ranges from an average of 95%, which indicates that most companies in the sample have implemented good corporate governance standards, or it can be said that the quality of corporate governance in the sample is high on average. Furthermore, all control variables, firm size, profitability, leverage, and firm age, have a significant effect on the quality of the company's financial statements.

The results of this study have practical implications for management and investors in understanding the importance of improving the quality of good corporate governance because we find that the higher the quality of corporate governance causes lower discretionary accruals, which in turn can improve the quality of financial statements. . It is hoped that management can optimize the quality of Corporate Governance (CG) in the company, so as to reduce manipulation practices in the company's financial statements. In addition, the findings of this study are also useful for investors to provide information on factors that can trigger

management to manipulate financial reporting practices, such as CG quality, firm size, profitability, leverage, and firm age. It is hoped that investors who are going to invest should be aware of companies that have low CG quality because they are likely to manipulate their financial reporting processes to keep getting capital. The indicator of low CG quality is the low level of corporate governance disclosure in the company.

The limitations of this study are first that there is still a gap between the findings of our study, which strengthens some of the positive results, while the results of previous studies also still have negative findings. Therefore, we argue that the relationship between the quality of corporate governance and the quality of financial reports may be indirect, so for future studies, it is hoped that we can examine the moderator and mediator variables. Second, based on the adjusted R square value, it is too small at 0.020. This means that there are other factors that influence the quality of financial reports that have not been examined in this study. Further research is highly recommended to add more control variables such as sector, capital structure, sales growth, and auditor quality which can potentially affect the quality of financial statements.

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